

Responsible Microfinance: Closing in the Imaginary Schism between the Social and the Economic

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- The peculiar transition of Indian microfinance
 - From a development initiative with business character to a business initiative with development implication; realisation of social goals through the instrumentality of business
 - Wealth and profit maximisation explicit goals of microfinance activity
 - From an unregulated not-for profit activity to a regulated for-profit activity (increased emphasis on legal legitimacy)

- The changing structure of management, stakeholder profile/ composition and resultant shift in ownership and control structures
- Conflicting claims of clients, management and funders/ investors
- Increasing concern that mFO strategies are determined by the prescriptions and priorities of the financial market players

Two levels of responsibility

1. Assessment of organisational intentions, actions and impact
 - Ethics and values of management
 - Philosophical and legal basis of the mF entity
 - Development of community self awareness and identity
 - Social consciousness of the entity and its personnel
2. Examination of how society influences mF practice

How to Address SR in mF?


Organisational level

- Clarify the long term value of microfinance business
- Initiate a social contract of impartially accepted social agreements of all the stakeholders and a clearly stated policy of surplus distribution
- Create norms, structures and practices that reflect ethical sensitivity and moral quality of the management in enforcing the social contract
- Evaluate the legitimacy of expectations of various stakeholders; give adequate emphasis on those that are congruent with the value perception and the social agreements
 - voiceless clients and empowered managers?
- Make sure using institutional mechanisms that organisational decisions are not influenced by the interests and priorities of the mighty

- **Client level**

- Be aware of the capacity to contribute to the mF programme and assess its utility to them
- Be a vigilant customer of services and responsible user of credit for the wellbeing of self and other members of the family
- Act as the critical conscience of the mF programme by giving out right signals with respect to the impact of the programme

Need for a Social Contract

- A social contract among all the stakeholders of the organisation that serves as a touch stone to review and assess the outcomes of the day to day running of the organisation
 - This requires a multistage deliberative process that generates impartially acceptable agreements
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- A typical social contract
 - ensures avoidance of force, fraud and manipulation
 - allows each party to negotiate on the basis of its capacity to contribute and its assessment of the utility of each agreement/ non agreement
 - makes sure that each stakeholder derives from the social contract at least the reimbursement of the cost of specific investment that it makes towards surplus generation (social contract regulates the distribution of surplus)
 - Has a provision to discard all solutions that are accepted by only one stakeholder so that each of the stakeholder is willing to accept the terms of agreement

Some Pertinent Questions

- Has the mFI ever changed/ modified any of its product/service because the clients demanded it?
- Is there a formal client feed back loop built into the information system used by the mFI?
- How often the senior management meets the clients?
- Suppose among the clients of an mFI, half favour the repayment policy (say, of weekly repayment) and half oppose it, how does it resolve it?
- Suppose the clients and management of an mFI have serious differences on certain issues. What institutional redressal mechanism does it have to resolve it?
- What is the perception of an average client of the mFI as to her contribution to the business and her utility of it?

- What is the process by which the social mission and social responsibility policy statements of the mFI are arrived at? Who are the chief parties to it?
- Is the client community enabled and empowered to keep a vigil on the transactions that involve their money?
- Have the clients improved their financial behaviour after joining the programme?
 - Are they more disciplined in their borrowing now?
 - Are they regular in repaying their loans?
 - Are they able to plan their savings?
 - Are they managing their expenditures prudently?
 - Do they have better sense of their future and better prepared to face it?

How have mFIs attempted to bridge the divide ?

- Conscious incorporation in the programme of elements that deal with social inequity and exclusion
- Maintaining a fair gender balance in management and deliberately ensuring social diversity among employees
- Educating clients in financial responsibility and prudent money management through financial literacy promotion
- Broad-basing leadership qualities in clients through training, participation, exposure and encouraging a culture of critical reasoning
- Ensuring that community gets adequate representation in management and governance

Concerns

- Have we complicated the assessment of social change outcome of microfinance by combining indicators of social responsibility and social performance management?
- Shouldn't the discussions on social responsibility have to be contextualised within the distinct culture of leadership and governance in any given society?